NOMINATION OF WILLIAM POOLE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF WILLIAM POOLE
TO BE A MEMBER OF THE COUNCIL OF
ECONOMIC ADVISERS

DECEMBER 7, 1982

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

[97-76]

U.S. GOVERNMENT PRINTING OFFICE

12-541 O WASHINGTON: 1983

S241-6

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

JAKE GARN, Utah, *Chairman*

JOHN TOWER, Texas
JOHN HEINZ, Pennsylvania
WILLIAM L. ARMSTRONG, Colorado
RICHARD G. LUGAR, Indiana
ALFONSE M. D'AMATO, New York
JOHN H. CHAFEE, New York
HARRISON "JACK" SCHMITT, New Mexico
NICHOLAS F. BRADY, New Jersey

DONALD W. RIEGLE, JR., Michigan
WILLIAM PROXMIRE, Wisconsin
ALAN CRANSTON, California
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee

M. DANNY WALL, *Staff Director*
ROBERT W. RUSSELL, *Minority Staff Director*
DEXTER L. BELL, *Counsel*

NOMINATION OF WILLIAM POOLE

DECEMBER 7, 1982

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 9:30 a.m. in room 5302, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.
Present: Senators Garn, Proxmire and Sarbanes.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.
The purpose of this morning's hearing is to consider the nomination of William Poole to be a member of the Council of Economic Advisers.
Mr. Poole, we are happy to have you with us. You come very highly recommended and I'm personally pleased with the President's nomination and will certainly support that nomination.
I'm very happy to have a distinguished member of this committee before us to introduce you, Senator Chafee, and I say that with some despair because he's been such a valuable member of the committee and the Committee on Committees and Seniority being what it is it is possible that after Wednesday when they meet he will no longer be a member of this committee. I have been trying to figure out how to keep him on and I suggested to the Committee on Committees that the chairmen just be allowed to select their members. They wouldn't go along with that, but in any event, John, we are very happy to have you on that side of the table this morning to introduce Mr. Poole and also, Senator Pell, when Senator Chafee finishes, we are certainly pleased that you would take the time to come before the committee this morning to introduce Mr. Poole.

STATEMENT OF JOHN H. CHAFEE, U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you very much, Mr. Chairman, and first let me say that it would be with great sadness if I were not able to remain on the Banking Committee—which I've enjoyed so much the past 2 years and to which you've given such fine leadership—in which we have an agenda set out for the forthcoming year that is an exciting one and I certainly hope I can participate in it, but we'll see what happens as we go through the process Wednesday.
Mr. Chairman, it's my great privilege to introduce Dr. William Poole, who's been nominated as you know to be a member of the President's Council of Economic Advisers.

This is a very critical position. The role of the Council I believe will be very significant—as it has been in the past—in the years ahead.

Dr. Poole brings to this position a most impressive list of credentials, not the least of which is that he's from Rhode Island. He received his A.B. from Swarthmore where he was a Phi Beta Kappa; his M.B.A. and Ph. D. from the University of Chicago, and I learned that while he was in Chicago one of his fine teachers was our current Secretary of State, Dr. George Shultz.

Presently Dr. Poole is professor of economics at Brown University, of course which is in Providence. He's worked with the Federal Reserve Bank of Boston. He's been an adviser to the Government of Australia in connection with their reserve banking system. He's had visiting lectureships at a number of universities in addition to Brown, which, of course, is where he permanently is. Those include MIT, Harvard, Georgetown, George Washington, American University, and Johns Hopkins.

He has a most impressive list of publications. So, Mr. Chairman, it's a delight to present to you and to this committee Dr. Poole, who I am confident will do an outstanding job, and as a Rhode Islander I must say we are very, very proud that one of the professors at our major university in the State has been selected by the President for this position.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Chafee.

Senator Pell.

STATEMENT OF CLAIBORNE PELL, U.S. SENATOR FROM RHODE ISLAND

Senator PELL. Thank you, Mr. Chairman, for giving me this opportunity to support my colleague, Senator Chafee, in introducing to you a very distinguished resident of our State, Dr. William Poole VII, who's been nominated by President Reagan to serve as a member of the Council of Economic Advisers.

As Senator Chafee has said, Dr. Poole has had a distinguished career in economics. In the past 8 years he's served as a professor of economics at Brown University and for the last year as chairman of the department of economics.

Professor Poole was adviser to the Federal Reserve Bank of Boston, was a visiting scholar at the Federal Reserve Bank at San Francisco, and has been an occasional consultant to the CBO, our own Congressional Budget Office.

Professor Poole previously served as a senior economist to the Board of Governors of the Federal Reserve System and has lectured at many public universities.

I believe our Nation is badly in need of good sound economic advice and I would very much hope that Professor Poole can help provide it. I'm not familiar enough with his views to know if I would agree with all of his economic analyses and recommendations, but there's absolutely no doubt that Professor Poole has the knowledge, the experience, and the professional qualifications required for the position for which he's been nominated.

I note, too, that he's a yachtsman and a sailor and belongs to the Bristol Yacht Club, and I think that anyone who's spent some time sailing on our beautiful Narragansett Bay can't help but have a clearer vision and more contemplative understanding and discerning nature to analyze the economic problems of the future. Economics is not a science; it's an art; and I wish Dr. Poole good luck in it.

The CHAIRMAN. Thank you very much, Senator. I'm sure you both have other duties and we'd be happy to excuse you at this time.

Mr. Poole, could I have you stand to be sworn.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Senator Proxmire, do you have any statement you wish to make?

Senator PROXMIRE. No. I'd just like to observe, however, that Mr. Poole is a sailor. I think that's certainly to his advantage. This isn't a statement and it's a little irrelevant, but I want to ask Mr. Poole if he's ever tipped over.

Mr. POOLE. Of course.

Senator PROXMIRE. I'm glad to hear that because I was vice chairman of the North Channel Yacht Club up in Canada at one time and I tipped over 10 times in my various races, and I think it's good for the character to capsize. It shows also you're willing to take risks.

Mr. POOLE. If you don't tip over, you're not a hard competitor.

Senator PROXMIRE. Right.

The CHAIRMAN. Mr. Poole, do you have an opening statement you wish to make?

Mr. POOLE. No, I do not.

The CHAIRMAN. I understand that your wife will retain her common stock in CPC International Corp. which has a leading market position in the sale of corn sweeteners known as fructose. I understand further that you will refrain from participating in any policy discussions or deliberations specifically involving CPC International or specifically involving issues or matters that might have a specific predictable effect, direct or indirect, on that company such as discussions of policy about import quotas for sugar. Is that correct?

Mr. POOLE. That's correct. Absolutely.

The CHAIRMAN. What you're saying then is that you will avoid conflicts of interest or even the appearance of conflict of interest in your service as a member of the Council of Economic Advisers.

Mr. POOLE. Yes.

The CHAIRMAN. And will you be willing to appear before this committee and other committees of Congress when requested?

Mr. POOLE. Yes, I will be delighted to appear.

The CHAIRMAN. What do you expect will be your specific responsibilities on the Council?

Mr. POOLE. The Council has historically been organized with a chairman who ranges very widely across the issues, a micromember, and a macromember; and I will be the macromember, if confirmed. That involves issues of forecasting, of the study of the determination of prices, unemployment, policies in the financial sector concerning regulation and deregulation, housing issues, and a number of international finance issues.

The CHAIRMAN. To what extent do you believe that the recent rapid growth in M_1 can be justified by the maturing of all-savers certificates or other factors?

Mr. POOLE. I have not made a very detailed study of that issue. As you know, the Federal Reserve has access to a large body of data, sometimes including surveys of individual banks, information that is not generally released.

My overall view on monetary policy remains, as it has for many years, that we need to hold on to monetary targets, to adhere closely to those targets, and that we should not depart from those targets without good and sufficient reason.

Now there is a large random statistical noise in our monetary data and that means that monetary fluctuations over short periods of time are in part not subject to control and in part due to random influences that we do not understand very well.

So my instinct is that it is not a matter of any great import when there are short-run fluctuations in money growth. The longer those fluctuations continue, the more confident we must be in our evidence that there is something peculiar with the incoming data so that we should want to allow the fluctuation, a higher or lower rate of growth—higher than target or lower than target—to continue to run.

The recent money growth has not been running for all that long and it is only a matter of concern at this point if those rates of growth continue for a longer period.

The CHAIRMAN. Do you feel in any way the targets for growth, the monetary aggregates, should be altered as a result of the new depository instrument that has been granted the banks and savings and loans?

Mr. POOLE. Well, I think in principle we may want to alter those targets, but it is very difficult to know what the change should be until some evidence is accumulated as to how fast the newly authorized accounts will grow. We have some protection, if you will, from the fact that we have targets not only for M_1 but also for M_2. The new account is most likely to lead to a reallocation within M_2 and would most likely not require a change in the M_2 target.

We can also track some of these things as we go along because we will have data on the new accounts, how rapidly funds are accumulating in the new accounts. It seems to me at this stage we would not know exactly how to change the target even if we were convinced that we wanted to do so.

So I don't see that we have any choice at this point other than to track the situation as we go along.

The CHAIRMAN. How do you assess the argument that's often made that because there's so much unused capacity in the economy right now that the Fed could increase the targets and not reignite inflation?

Mr. POOLE. Well, in my judgment, the targets as they now stand, abstracting from the changes in the banking regulations that permits new accounts, are fully sufficient to support a moderate and sustained recovery.

That is what I think will happen. We should be ever on our guard that we do not set up another cycle that will lead to reacceleration of inflation and a premature end to the economic expansion.

The CHAIRMAN. Do you believe the Federal Reserve should use changes in the discount rate to signal policy directions or should move to a market oriented discount rate?

Mr. POOLE. I have felt for many years—and in print—that it would be desirable for the Federal Reserve to tie its discount rate to market rates of interest. This is a matter that has been under discussion for as long as I have been studying economics. It is not a new issue. The Federal Reserve is fully aware of the arguments involved and they have decided not to go that route. I don't see that it's a pressing issue. I think it's a relatively minor issue, although I think it would be helpful to tie the discount rate to market rates of interest.

The CHAIRMAN. The Banking Committee has before it a congressional resolution calling on the Federal Reserve to "take such actions as are necessary to lower interest rates." Over the last couple years we've had several resolutions or bills to the same general effect or to change the composition of the Federal Reserve to get people on the Board that would take actions to lower interest rates.

Now the resolution doesn't specify what those actions should be because the authors of the resolutions, like I and others, don't know what should be done. But it implies that the Federal Reserve is intentionally holding up interest rates.

Do you see any evidence of that, that the Fed is deliberately holding interest rates up or that they could take actions to bring down interest rates unilaterally without some better control than we've had on fiscal policy?

Mr. POOLE. The Federal Reserve has determined its monetary targets over the last few years with a view to first stabilizing money growth and then gradually bringing it down on the track consistent with an ultimate return to price stability. When price stability returns, we know—and I deliberately use the word "know"—that interest rates will be substantially lower than in the late 1970's, and substantially lower than at the current time, because a major part of the nominal interest rates that we observe and that has caused so much difficulty in recent years is an inflation premium that has been bid in as investors attempt to protect themselves against the depreciating dollar—depreciating in purchasing power.

So in my view, it is essential that money growth be brought down over time. That that is the only sure-fire way to bring down interest rates in a permanent and sustainable fashion.

The CHAIRMAN. November's figures show that housing starts rose 1 percent in October and that building permits were up almost 18 percent from the previous month. How do you personally assess the outlook for the housing industry?

Mr. POOLE. Housing is doing very well now. Housing starts and housing permits are far above year ago levels—something in the neighborhood of 35 percent above year ago levels.

What is happening, in my view, is a traditional, indeed a textbook case, of recovery in housing, a very interest sensitive part of our economy—perhaps the most highly interest sensitive part of our economy. It fits together with the decline in interest rates that we've seen since last spring, a decline that had been most dramatic in the summertime. So I think that the picture fits together very nicely there and that we should see a continuation of the housing recovery.

The CHAIRMAN. How do you assess the danger that the mounting Federal deficits could reverse the recent interest rate declines you just referred to? My own fear is that despite whatever the Fed does

that with a still uncontrolled Federal budget, still rising automatically, with increasing deficits, despite the cuts that we have made in discretionary programs—my own personal opinion is I don't know how interest rates can continue to go down no matter what the Fed does unless there is more fiscal responsibility here in the Congress.

How would you assess that?

Mr. POOLE. I believe that there is quite a large amount of evidence that says that the Federal deficits will hold real rates of interest—rates of interest adjusted for inflation—higher than they otherwise would be. The larger the deficit, the higher will be the real rate of interest.

The deficit has been very large, no question about it, contributing to high real rates of interest. Real rates of interest have been so high in the last few years that it would seem to me surprising if the current deficit, unless it expands considerably from current levels, makes real rates even higher than they have been. Real rates have been very high.

My anticipation would be that real rates, particularly in long instruments, would remain high unless the Federal deficit is brought down in a reliable and sustained fashion over time. That doesn't mean this year or next year or the year after, but there has to be solid promise—and I emphasize the word "solid" rather than "promise"—there must be a conviction in the marketplace that the deficit is being brought down over time. That will lead to a decline in real interest rates over time.

However, we should emphasize also that the rate of inflation has come down so dramatically that the inflation premium part of nominal interest rates is being squeezed out and so I believe that the nominal interest rate will continue to trend down if we can sustain the progress toward lower inflation.

The CHAIRMAN. How do you react to the charge made from many quarters that monetarism has been tried and failed—found wanting?

Mr. POOLE. I think the important question there is as compared to what? What is our real choice? What is our policy alternative?

It's important to think back to our situation in 1978–79 when we made the decision—the Federal Reserve made the decision—to pursue a policy of controlling bank reserves in order to produce more stable money growth. We should remember that the situation in 1978 and 1979 was one of accelerating inflation, sharply rising interest rates, and a depreciating dollar.

Certainly the adherence—the much tighter adherence—to money growth targets in a trend sense has been the single most important factor in reducing the rate of inflation and in the declines in interest rates that we have seen in recent quarters.

So, there's no question that the adherence to monetary targets has produced very important dividends that we cannot ignore.

The CHAIRMAN. Thank you very much, Mr. Poole.

Senator Proxmire.

Senator PROXMIRE. Mr. Poole, I'm very impressed by your background. You're obviously a fine scholar and have written a great deal and you're a professor at a most distinguished university.

Mr. Poole, when Mr. Feldstein appeared before this committee he said he thought that fiscal policy and monetary policy moved in coordinated ways. He was talking about the Reagan administration's performance.

He had previously stated the administration's policy, and I quote:

> The effect, therefore, is not a conflict between monetary and fiscal policy as we so often read in the press, but a coordinated mix designed to twist the composition of spending away from housing, away from consumer durables, and into plant and equipment.

My question is, do you agree that Mr. Feldstein's fiscal policy and monetary policy have not been in conflict?

Mr. POOLE. Senator Proxmire, let me suggest, if you will, that the person to direct that question, of course, as was done, is Mr. Feldstein; but let me explain my view on the issues that you raised and not try to explain any nuances of difference that might exist between Feldstein and myself.

It seems to me that the policies that we followed over the 1970's that led to accelerating inflation and an increasing budget deficit were policies that had two important effects. They tended to depress saving by reducing incentives to save. They tended to encourage consumption by households of consumer durables and of housing. They tended to depress the incentives for business fixed investment.

Now, I would put the emphasis here not so much on the mix, the fact that housing was encouraged at the expense of business fixed investment, but on two other factors. First, there was a reduction in saving in the economy as a whole because of the reduced incentives for private saving and because of the amount of saving absorbed by the government budget deficit. That would be point number one. Those twin effects on saving are both things that could be reversed and should be reversed by our policies today and in the future.

Second, I would also emphasize, and I think this is very important, that anyone who looks at a chart of interest rates and of housing must be impressed by the enormous oscillations. We have produced a very unstable housing industry alternating between boom and bust. Those words really do apply, as you well know, to the housing industry and construction business.

I think that we should be able to produce a more stable industry which will be more efficient and an industry that will prosper because there will be larger saving in the economy as a whole in the years to come.

Senator PROXMIRE. Well, I appreciate that response. It seems to me you indicate you favor a more stable housing industry which, of course, all of us would like to see. It would be far more efficient. But the fact is, the most disturbing element we've had in housing was those tremendously high interest rates by short standards that are way, way beyond any experience we've had in late 1981 and 1982 before we fell into this terrible deep recession, and the figures you gave saying that housing is doing well—

Mr. POOLE. Compared to last year.

Senator PROXMIRE. Compared to what? That's right. Compared to an absolute total disaster. It's still doing very badly by any historical basis and doing badly compared to the kind of housing we need in this country to meet the projected needs we've had before this committee over and over again. We are still at only an annual housing rate of about 1.3 or something like that instead of 1.7, 1.8, 1.9 which we could easily sustain. I'm not sure that I understand your answer completely. Do you believe that a mix of policies designed to take money

out of housing and consumer durables was a good thing? Do you think that was called for?

Mr. POOLE. No; I do not interpret the current policy as being designed to take money out of housing and consumer durables. Let me give you a little background on my philosophy about economic policy and this may crop up in other contexts.

As I look at postwar economic experience in the United States and especially experience since the 1960's, it seems to me that we have had an economic policy, both a fiscal policy and a monetary policy, that has inadvertently all too often been destabilizing instead of stabilizing; that the policy adjustments that have been taken have often—because of lags and because of the difficulties of making accurate forecasts—the economic policy adjustments have all too often contributed to instability rather than stability.

Now it's not because we have not had intelligent people sitting in my office and elsewhere in the Government that this outcome has occurred. We have been trying for many years to pursue a stabilizing policy and there have been very many talented and intelligent people working on that problem.

But I believe that over the postwar period we do not have solid evidence of improvement in that regard.

Now that reading of history leads me to believe that we should base our policy decisions on a longer run track. Our stabilization attempts have generally been regarded as failures—especially the fine-tuning attempts, a term that even the people who are policy activists disavow. So if we have not been successful, in my view we need to remove Government policy as a source of disturbance.

That means that if we can base our policy on the long-run growth potential of the economy and not try to react to current economic conditions, knowing that there are difficulties in forecasting and difficulties because of the lags in policy, then we have a better chance of producing a more stable environment and of reducing the very large swings that our economy has experienced.

Senator PROXMIRE. Well, I appreciate that, but the most conspicuous consequence of present economic policy has been the colossal deficit. We had a deficit last year ending September 30 of $110 billion which is by far and away the biggest in our history, and an anticipated deficit of $150 billion or more in the current fiscal year, and maybe bigger than that after that time. The result is that there's a tremendous demand for credit which the Federal Reserve Board will meet only at the peril of building inflation into the system from the Federal Government itself. And I can't see any policy of this Government that is going to do very much about those huge deficits, and it seems to me that if we start recovery in the private sector, if the housing situation does build and come back, and people start buying automobiles and financing those automobiles and so forth, then the inevitable result is either a policy of monetizing the debt by the Federal Reserve or high interest rates again choking off recovery again and stumbling along in the same kind of malaise that we suffered so badly in the last year of two. Isn't that right?

Mr. POOLE. Everyone is well aware that the Federal deficit absorbs savings, taking funds out of the private market that would otherwise be available for housing, consumer durables and business fixed investment.

The argument, obviously, is about how to close the deficit. That's what the argument is all about. I believe that there are two problems with our fiscal policy in a trend sense over time. First, we have been moving toward larger deficits in a secular sense. That is obviously not a sustainable situation and even if it were sustainable it has the problem that you focused on, which is that it absorbs savings and it necessarily takes it out of the capital goods business and the consumer.

Second, though, we have had a long trend of increasing the tax burden relative to GNP and of increasing the size of Government spending relative to GNP. That is also a trend that cannot continue. We will sooner or later find ourselves in deep difficulty if we cannot stop the Government's growth relative to the size of our economy.

So I interpret the efforts of this administration as one to deal with both problems simultaneously—to reduce taxes so that tax revenues relative to GNP stop growing, and to get a hold of Government spending so that the spending side does not grow relative to GNP. Of course, the two have to be brought into some sort of rough balance so that the deficit is not excessively large.

Senator PROXMIRE. My time is up. That may be their intention but they have certainly failed dismally though. Do you contest what I said about the deficits being $110 billion last year, $150 billion in the present fiscal year, and every indication it will continue to go up? If you do contest it, how are they really going to cut that back? What are they going to do to reduce the deficit?

Mr. POOLE. Certainly the number that you quoted for last year is part of the record and the forecast for fiscal 1983 is not an unreasonable forecast. Certainly there have been people talking about bigger numbers than that and I don't know exactly what that number is going to be, but it's not small. There's no question about that.

Senator PROXMIRE. What policy are they following to cut that deficit down?

Mr. POOLE. Well, the administration will shortly be presenting a budget and that will be something for the administration and the Congress to work on together.

Senator PROXMIRE. But you don't have any—as the presumptive member of the Council of Economic Advisers, you don't have any proposals of your own for that?

Mr. POOLE. I have a proposal in the sense that I want to insist that we must not close the deficit only by taxation, that we must find a way of holding the size of Government spending relative to GNP at at least current levels and preferably working it down.

Senator PROXMIRE. My time is up, Mr. Chairman.

The CHAIRMAN. Before I call on Senator Sarbanes, let me just say, Mr. Poole, that in the 8 years I've been here through three administrations, every estimate of every budget deficit has been smaller than it turned out to be. So, I believe Senator Proxmire is correct, that that estimate of $150 billion is probably too low, only based on past experience without regard to who is President or who's been in the Congress. We have consistently been under every year that I've been here and probably every year that Senator Proxmire has been here.

Senator PROXMIRE. Very nearly.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

Mr. Poole, I wasn't here right at the outset. I don't know whether the chairman asked you the standard question, as he ordinarily does, whether you would be willing to appear before the committees of the Congress when requested.

Mr. POOLE. Yes, the question was asked and I answered in the affirmative. Absolutely.

Senator SARBANES. Well, Mr. Chairman, I want to bring to the attention of the committee a matter that I think is of concern.

On Wednesday, the 22d of September, when Martin Feldstein appeared before this committee, you put the question to him, "Will you be willing to appear before this committee and other committees of the Congress when requested," and Mr. Feldstein replied to that, "I will happily."

I don't know if you've seen Mr. Feldstein's letter to Chairman Reuss of the Joint Economic Committee——

The CHAIRMAN. I have not seen it but I was informed about the content of it and I would just say that I think he should have appeared.

Senator SARBANES. I agree with you 100 percent and I just want to underscore for the public record that Mr. Feldstein was invited—and I'm a member of the Joint Economic Committee, as is Senator Proxmire—to appear for the Friday hearing on the latest unemployment figures. He indicated he could not do that. The chairman offered to reschedule, to hold a hearing on Monday at 2 o'clock to accommodate him, or at any other time that could be conveniently and mutually worked out. Chairman Feldstein's letter, which you have in front of you, is really a preemptory refusal.

First he lists all the demands on his time. He then goes on to say:

> Quite apart from these demands on my time, as a matter of administration policy, I should not testify until I've been confirmed by the Senate. As you are aware, my confirmation by the Senate has not yet occurred.

He holds a recess appointment, which means he can exercise all the powers of the office, this doctrine with respect to recess appointments is unknown to anyone as best as I have been able to determine and we've asked the Library of Congress and other research scholars. In fact, the White House Counsel's Office informed the Joint Economic staff that no policy against congressional testimony by recess appointees exists.

Now to compound this situation—and I don't want to go on at great length but I think Mr. Feldstein's response is outrageous, let me quote from the first two paragraphs of a New York Times article on Monday of this week called "Working Profile, Martin S. Feldstein." I'm now quoting:

> He did a press breakfast and two speeches on Monday, a half-hour television interview Tuesday, another press breakfast Wednesday, a speech Thursday night to the directors of the 12 Federal Reserve Banks, and an address Saturday to the British North American Committee, a business group. Even by White House standards, that is a whirlwind agenda of outside appearances for Martin S. Feldstein now in his fourth month as chairman of the President's Council of Economic Advisers, is evidence of a hard, fast, confident start.

It is incredible that Mr. Feldstein is making all these appearances while at the same time telling a committee of the Congress that he's too busy to come before them and also asserting his novel doctrine that as a recess appointee he's not going to appear before a committee of Congress.

If and when this nomination comes up on the floor, I think the record that I've just recited should and will be a fair matter for debate by the Members of the Senate. I think there's absolutely no excuse or explanation for this position that he's taken.

The CHAIRMAN. Well, all I can repeat, Senator, is I think he should have shown up.

Senator SARBANES. Mr. Chairman, you might advise him of that.

The CHAIRMAN. Oh, I would expect that he would hear about it.

Senator SARBANES. I think he would; yes.

Mr. Poole, when you say interest rates have declined in recent months, I take it you're not talking about real interest rates.

Mr. POOLE. I believe that on the short end of the money market such as Treasury bills real rates have come down.

Senator SARBANES. But when you made the statement, and when others generally make the statement nowadays, I take it when they're first they simply point to the fact that the rate of interest as a figure is lower than it was. When you make that statement, are you thinking very specifically about real interest rates?

Mr. POOLE. I'm thinking about both real and nominal. What we observe is the nominal interest rate and the difficulty is to disentangle how much of the nominal interest rate reflects inflationary expectations and how much of it reflects an expected real rate of some amount.

Now on the short end of the market, it seems to me very clear that nominal interest rates have declined more rapidly than any reasonable estimate of the rate of inflation. So I interpret the decline in the short end as being unambiguously a decline in the real rate of interest on short paper—3, 6, 12 months, that sort of thing.

I also think that the same argument extends out several years. But when you're talking about a 25-year bond or 30-year bond, no one knows what's reasonable to believe about the rate of inflation over the next 30 years.

One of the things that particularly concerns me about the long-term bond rate is the enormous volatility. It's not just that the rate has been high, but also that it has been extraordinarily volatile by our past standards. It seems to be moved by events that I would interpret as being relatively unimportant and transitory in and of themselves. I believe that we have an exceptional environment over the long run that is not well defined. People are quite uncertain as to whether we are on the track that is going to return our economy to a low inflation, stable environment or whether we're at risk of going off track again.

Senator SARBANES. On this volatility point that you made, which I think is an interesting point, how harmful do you think it is to economic activity and to the planning decisions of the private sector, particularly those elements of the private sector that function in interest rate-sensitive sectors?

Mr. POOLE. The volatility of the interest rate reflects the underlying volatility in assessments about the future—about the inflation rate and about the budget deficit that may affect the real rate of interest in the future. The interest rate is a symptom. It's a market result of the factors that are moving supply curves and demand curves around.

Of course it causes considerable difficulty in planning when you don't know what the interest rate is going to be and how it may move, whether it may move against you or whether you have ended up financing at a rate that tomorrow turns out to be too high.

But I want to emphasize that that interest rate is a result of the volatility in the underlying situation, volatility in the underlying determinants of the interest rate, and you cannot stabilize the interest rate without stabilizing the underlying situation.

I think it is harmful. It certainly does not make it easy to plan and——

Senator SARBANES. You're trying to stabilize the underlying factors and have the interest rate fluctuating; is that right? Is that how you would do it?

Mr. POOLE. I'm saying that the policy position that I favor is one that does concentrate on stabilizing the underlying features of Government policy.

Senator SARBANES. If I'm an auto dealer who has to deal with interest rates in my real life, what does that do for me? Don't I really want a stable interest rate? You as a policymaker ought to give me that, and then address other factors, whatever they may be, either in the monetary area or in the fiscal area. But how can I function with interest rates bouncing around all over the place, particularly at these very high levels?

Mr. POOLE. The point that I'm driving at is that I do not believe that we have up until now been successful in stabilizing these underlying factors. We see estimates of the budget deficit sometimes jumping almost day by day. We see a great deal of uncertainty about what will happen to all the very difficult and sensitive issues that are involved on the spending side, including social security. People are very uncertain as to how all this is going to come out.

I believe the same is true, although to a lesser extent, with respect to monetary policy. But there's a connection between fiscal policy and monetary policy, which I think Senator Proxmire put his finger on a moment ago, and that is that the Federal Reserve is going to be in a real bind if the fiscal house is not put in good order.

Senator SARBANES. Let me ask about the fiscal house. Maybe I'm naive. If you cut domestic spending but increase military spending by at least as much as the domestic spending cuts, if not more, and at the same time cut taxes, how will you close down the deficit?

Mr. POOLE. I'm not an expert on military spending. I have no professional qualifications to talk about what the size of our defense establishment needs to be for the maintenance of our security.

But, of course, there is an inexorable arithmetic here which you have pointed out. We cannot increase spending on the military, which experts assure me is necessary, although obviously there's considerable dispute about how much—no one denies that—but we cannot increase the expenditures on defense without either having an offsetting reduction in nondefense expenditures or tax increases. That's a matter of budget arithmetic that cannot be escaped.

Senator SARBANES. My time is up.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. Mr. Poole, unemployment is unacceptably high. We've had some progress on inflation. Is unemployment the price we have to pay for reducing inflation?

Mr. POOLE. The unemployment that we are suffering now is an extraordinarily distressing phenomena. As the President said recently, it is truly a national tragedy.

As I look back on the record, I would like to emphasize that we have experienced many of these tragedies over the postwar period, although this one is by far the worst.

What we need to do is to insure that we do not go through another of these cycles. The policies that we pursue today in response to this very difficult situation, a situation that is leading to in some cases even the breakup of families, certainly great distress—we must insure that we don't go through it again.

Obviously, we want to get out of our current situation as rapidly as is feasible but within the context of a policy that does not do it again.

Now, in my opinion, the accelerating inflation in the late 1970's contributed to an extraordinarily unbalanced economy and one that was becoming less and less predictable. Let me recall that we had a mild recession in 1969–70 where unemployment I guess was up a little over 6 percent at the peak. We had a more serious recession in 1974–75, unemployment peaked at 9 percent. We have a much more serious recession today, with unemployment currently at 10.8. Unemployment in each of these recessions has been peaking at a higher level.

Now it would truly be a tragedy if we are unable to deal with the current situation and prevent the next unemployment peak from being even higher than this one.

Senator PROXMIRE. Aren't we failing, however, to look at the whole picture? We've had a dramatic change over the last 30 years in the composition of the work force. We now have far, far higher proportion of women in the work force than ever before. We had one woman in four with a school age child in the 1950's. Now we have close to two-thirds of the women with a school age child between 6 and 16 in the work force. That's tremendously increased the proportion of the adult population looking for work or at work.

As a matter of fact, we now have close to the highest proportion of people actually working we've ever had.

Do you think, under these circumstances, we might consider the possibility of looking at the 50-year-old, 8-hour day, 40-hour week—something I've been very reluctant about—but I just wonder if maybe we should consider the possibility of some kind of work sharing. There's a very high value put on leisure in our society. It goes against the grain to some extent, but it seems to me that it might be time for us to consider that. What do you think about that?

Mr. POOLE. It's certainly noteworthy that we have had the changing demographic structure of our labor force with upward trends—ignoring the wiggles now—with upward trends in both the employment ratio and the unemployment ratio. But I'm convinced that what we want to do is to make available in a vigorous market system opportunities for work to the people who want to work. If people do not want to enter the labor force, that should be their own decision. If they want to enter the labor force, they should be able to find productive and satisfying work. That includes people, by the way, who are in what is normally regarded as the retirement age group. If people want to work after age 65, in my opinion, more power to them. It should be our goal as a government to create labor market structures that are responsive to the maximum extent to the preferences of the individuals in our society. That means that if people want to work, we ought to insure that constructive and satisfying—personally satisfying—jobs exist for these people.

Senator PROXMIRE. If you do that—and you're not going to do it by shortening hours—is it time for the Congress to create job creation legislation in view of the fact that unemployment figures are so high?

Mr. POOLE. The Congress, as I understand it—and I'm not an expert in the labor market area if you will bear with me on this—has passed legislation which puts emphasis on a private sector jobs initiative. I think that's the right way to go.

Senator PROXMIRE. How do we do that? Senator Lugar on this committee introduced housing legislation which was overwhelmingly supported in the Congress. The President vetoed it. It would have provided private sector jobs in housing. Is that the kind of way we should consider going? It provided for a subsidy, even a payback for a subsidy.

Mr. POOLE. Well, clearly, the most important factor in the housing industry and the one that is quantitatively going to swamp anything that can be done within realistic budget limits, has to be focused on interest rates in the marketplace. The decline in mortgage interest rates recently has led to a revival of housing that far and away swamps any conceivable Federal program.

Senator PROXMIRE. Well, that's yet to be seen. We don't know whether it will or will not. If the revival has started, it's very modest considering how far we have to go. The Lugar bill provided for close to half a million housing starts.

Mr. POOLE. There is a long way to go, but it is also true that we have substantial progress to show for the declining interest rates that we've had in recent months. I don't think we should ignore that fact. Of course, we agree that there's a long way to go, but we should not forget that we have come some distance.

Senator PROXMIRE. Let me ask you something about social security. We have clearly a difficult problem here. We're told we either have to increase taxes, social security taxes, payroll taxes, or reduce benefits, neither of which anybody wants to do. Obviously, either one is very unpopular and has its fall out to costs.

What do you think we should do about social security?

Mr. POOLE. Well, I think we have to await the report of the Greenspan Commission. This is, of course, a commission that has been charged at looking at the program.

Senator PROXMIRE. Well, we know pretty much what the options are they're likely to offer. Do you have any preference between—you've indicated earlier that you think we should do our best to avoid any increase in taxes. Does that mean we'll have to cut benefits or at least cut the projected benefits?

Mr. POOLE. I do not have any preconceived notion at this stage as to how we ought to go.

Senator PROXMIRE. You've had considerable experience in the international field visiting the central banks of Germany, Italy, England, China, New Zealand. The world economy seems to be in a sad predicament. As a matter of fact, this country is in better shape than many others economically. Unemployment is up in all industrialized countries. World trade is down. Third World nations are burdened with debt and in some cases in really desperate shape. They cannot export. They cannot earn enough to pay their bills. Our economy is stagnant so they can't increase their exports to us very well. Our ex-

ports are faltering. Protectionism is on the rise. The Japanese have refused to open up their economy.

What's your assessment of the world economy in order to continue to avoid world recession?

Mr. POOLE. There's no question that we are in a worldwide recession. Frequently in the past we have had recessions in different countries that are not all tied together and that has been a source of stability in the world economy as a whole—to have the economy in some countries rising and some in the recession stage. That helps to stabilize the world economy as a whole.

But, without question, the world economy, as you point out, is in a recession. We may be a bit ahead in the sense that I think we turned down a bit ahead of some of the other countries and it appears that we're going to turn up ahead, but I think that we've got a phenomenon , a worldwide phenomenon, of coming off an inflationary period.

The United States was not the only country that experienced an acceleration of inflation in the late 1970's. This was a worldwide phenomenon and the debt problems that have been experienced by many countries are actually very much a part of the same process. They are very similar in kind to the debt problems that many homeowners have faced when saddled with high mortgages, that many people in the farm sector have faced when they have financed land at high rates. It is part of the same general phenomenon.

Senator PROXMIRE. My time is up.

The CHAIRMAN. Go ahead.

Senator PROXMIRE. My time is up but the chairman has very graciously allowed me to ask a couple more questions.

I want to ask you about your writing. You've obviously written a great deal. They say in politics the best advantage you can have is to have an opponent who's written a book. You've written 50 articles I see and you've written "Money in the Economy" in 1978. I'd like to ask you just about two or three of them.

One is "Gradualism, a Mid-Course View" that you wrote in 1970. What's your conclusion now with the perspective of 12 additional years on gradualism as an economic policy? I take it gradualism means the kind of thing that the Federal Reserve is trying to do with respect to the money supply, increasing that gradually. Do you think there's evidence that it's going to work?

Mr. POOLE. Let me, if I may, just take a moment to tell you what that paper was about. You no doubt recall that the Nixon administration's economic program to reduce the inflation rate of the late 1960's was to be a program of gradualism. I was a fairly new and young staff member of the Federal Reserve board at that time, and what I did was to use the large econometric model which at that time was called, I guess, the Federal Reserve-MIT-Penn model, to explore the following issue. Taking the fiscal policy assumptions specified in the Economic Report of January 1970 and taking the projections for GNP and prices, what kind of monetary policy would have to accompany that fiscal policy according to this econometric model? Because the Economic Report of the President and the discussion at that time was mostly about laying out a fiscal policy plan, there was relatively little explicit attention being paid to what monetary policy would have to go along with it.

12-541 O - 82 - 3

So I thought that a natural thing for a staff member of the Federal Reserve to do would be to take this econometric model and see if we could get some insight into that.

Well, the conclusion that I came to was that the model was predicting that somewhat higher rates of money growth would be required to be consistent with this economic outlook than many people thought would be desirable. I did a follow-up paper the following year on that same problem.

Since that time, I have become convinced that these exercises with large econometric models can be very, very misleading because the models do not properly capture exceptional impacts as people look forward, which is important for determination of security prices—stock prices, and interest rates. These models all run those important sectors off the past and don't reflect exceptional phenomena.

So I ran through the exercise. I've since become convinced that it is not an enlightening exercise.

Senator PROXMIRE. Well, if that isn't very helpful in telling us the kind of monetary policy that we should have, it would be fascinating to get your view on the kind of monetary policy we ought to have now in relationship to the fiscal policy. What do you say right now as of 1982, December?

Mr. POOLE. Well, as of December 7, 1982, I'm saying exactly what I've been saying in recent years, having learned better from my model explorations in the early 1970's. I think that we need to settle down the exceptional environment, that we need to have policies that are predictable and sustainable in order to settle down the securities market, to settle down the environment in which people must plan and make decisions. That has both a monetary aspect and a fiscal aspect.

On the monetary side, we need to adhere to monetary targets over time and in time those monetary targets need to be worked down to be consistent with a low inflation rate.

Senator PROXMIRE. That sounds like you support the Volcker policy pretty completely.

Mr. POOLE. I support the policy of targeting on the aggregates and announcing those targets and adhering to them as closely as the interpretation of the current numbers allows.

Senator PROXMIRE. Then you wrote a piece in 1972, "The Variable Rate Mortgage on Single Family Homes, Federal Reserve Staff Study, Ways to Moderate Fluctuations in Housing Construction." Do you find that that would be useful, a variable rate mortgage?

Mr. POOLE. I wrote two papers at that time for that study. One was on variable rate mortgages and one was called "Housing Finance in an Inflationary Economy" or some such title. I think they're both listed there close to each other.

What I was discussing in that paper was the analytics of the variable rate mortgage. I was emphasizing that if a market were offering a variable rate mortgage and a conventional fixed rate mortgage as options, that for there to be a bargain you would have to have a relation of those rates such that both parties, the borrower and the lender, would prefer the variable rate to the fixed rate. It could well be that both parties might prefer to go with a fixed rate mortgage because neither of them would feel better off under the variable rate mortgage

that the other party would accept. It was a paper that was designed to explore the analytics of variable rate mortgages. It also included some discussion about how a variable rate mortgage might be structured, how the rate might be tied to market rates.

Senator PROXMIRE. We're still struggling with that exact problem, too. The variable rate mortgage makes an awful lot of sense from the standpoint of the financing institution, but I guess it's very hard to sell.

Finally, you had a paper on "Wage-Price Controls: Where Do We Go From Here?" What's your conclusion on wage-price controls? Is there any practical possibility that we could use them in a peacetime economy?

Mr. POOLE. Here again I had two papers, the first of which was begun on August 16, 1971, immediately after the announcement of the wage-price freeze. I felt at that time and still feel today that the adoption of wage and price controls was a terrible mistake. The paper that I wrote that you referred to was in the spring of 1973 just at the time that the wage and price control program was coming unstuck. It was an analysis of what I called at the time the exit problem; having gotten into controls, how do you get out? Are you left with anything when you get out?

Unless wage and price controls somehow can change the fundamental environment, assuming we are not going to have a permanent system of wage and price controls—that it's just a temporary thing—you have to be sure that when you get out that you're left with something. My conviction was then and is now that the wage and price controls are destabilizing and do not leave you with anything, indeed that they leave you worse off.

Senator PROXMIRE. Thank you. Thank you very, very much, Mr. Chairman, for your patience. I think this is an extraordinarily well qualified candidate. I'll be happy to support him.

The CHAIRMAN. Dr. Poole, I have no additional questions. Do you have any comments you wish to make before we close?

Mr. POOLE. Only that if there are further questions that you have that you would like me to answer for the record, I would be very happy to do so.

The CHAIRMAN. There possibly will be from some other members of the committee. You've been very articulate and very well informed witness and I'm certain that you'll have no problems with confirmation. We thank you very much for being here today.

Mr. POOLE. Thank you.

The CHAIRMAN. The committee is adjourned.

[Whereupon, at 10:35 a.m., the hearing was adjourned.]

[Biographical material on the nominee and additional information received for the record follow:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Poole (LAST) William (FIRST) --- (OTHER)

Position to which nominated: Member Date of nomination: October 1,1982

Date of birth: 19 (DAY) June (MONTH) 1937 (YEAR) Place of birth: Wilmington, Delaware

Marital status: Married Full name of spouse: Mary Lynne Ahrcon Poole

Name and ages of children: William Poole VIII(21)
Lester Allen Poole(14)
Jonathan Carl Poole(12)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Swarthmore College	1955-59	A.B.	1959
Univ. of Chicago	1959-63	M.B.A	1963
Univ. of Chicago		Ph.D	1966

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Research Associate, National Bureau of Econ. Research

Biographee, Who's Who in America

Biographee, International Who's Who in Education

Phi Beta Kappa, High Honors Swarthmore College 1959

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
American Econ. Association	None	1962-Present
American Fin. Association	Member (Nominating Committee	1979 1974-Present
Western Econ. Association	None	1974-Present
American Civil Liberties Union	None	1964-Present
Save the Bay	None	1977-Present
Thistle Class Association	None	1963-Present
Severn Sailing Association	None	1969-Present
Bristol Yacht Club	None	1975-Present
Providence Preservation Society	None	1977-Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Prof. of Economics, Brown University, 1974-Present (Chairpersor 1981)

Visiting Economist, Reserve Bank of Australia 1980-81

Advisor, Federal Reserve Bank of Boston 1973-74 (Consultant 1974-81)

Visiting Scholar, Federal Reserve Bank of San Francisco (Summer 1977)

Visiting Lecturer, Mass. Institute of Technology, Spring 1977, (Spring 1974)

Lecturer, Harvard University, fall 1973

Senior Economist, Board of Governors of the Federal Reserve System, 1970-74 (on leave, 1973-74); Economist, Board of Governors, summer 1964, and 1969-70

Lecturer, Georgetown University, fall 1972 (evening teaching)

Associate Professorial Lecturer, George Washington University, 1971-73 (evening teaching)

Professorial Lecturer, The American University, 1970-71 (evening teaching)

Assistant Professor of Political Economy, The Johns Hopkins University, 1963-69

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Employed by Board of Governors, Federal Reserve System 1964 and 1969-74; occasional Consultant 1974-81

Consultant, Congressional Budget Office

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

~~See Attachment~~

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Completed Research

Book: Money and the Economy: A Monetarist View (Addison-Wesley, 1978; Japanese edition, 1981)

Articles and Notes:

"Speculative Prices as Random Walks: An Analysis of Ten Time Series of Flexible Exchange Rates," Southern Economic Journal 33 (April, 1967), 468-78.

"The Stability of the Canadian Flexible Exchange Rate, 1950-1962." The Canadian Journal of Economics and Political Science 33 (May, 1967), 205-17.

"Commercial Bank Reserve Management in a Stochastic Model: Implications for Monetary Policy," Journal of Finance 23 (December, 1968), 769-91.

"Flexible Exchange Rates: A Transition Plan," in The International Adjustment Mechanism (Boston: The Federal Reserve Bank of Boston, March, 1970), pp. 65-81.

"Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model," Quarterly Journal of Economics 84 (May, 1970), 197-216.

"McKinnon on Futures Markets and Buffer Stocks," Journal of Political Economy 78 (September/October, 1970), 1185-90.

"Gradualism: A Mid Course View," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 2 (1970), 271-301.

"Whither Money Demand?" in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 3: 1970, 485-500.

"Rules of Thumb for Guiding Monetary Policy," in Open Market Policies and Operating Procedures - Staff Studies (Board of Governors of the Federal Reserve System, 1971), pp. 135-89; Reprinted in part in Smith, W. and Teigen, R. eds., Readings in Money, National Income and Stabilization Policy (Fourth Editior

"Thoughts on the Wage Price Freeze," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 2: 1971, 429-43; Reprinted in part in Okun, Arthur M., ed., The Battle Against Unemployment (Revised Edition).

"Alternative Paths to a Stable Full-Employment Economy," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 3: 1971, 579-606.

"Rejoinder," [to David Geithman "Comment"], Quarterly Journal of Economics 85 (November, 1971), 716-17.

"Discussion" [of papers by Richard Roll and Donald Hester], Journal of Finance, 27 (May, 1972), 299-302.

"The Role of Interest Rates and Inflation in the Consumption Function," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 1: 1972, 211-19.

"Improving Monetary Control," (jointly with Charles Lieberman) in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 2: 1972, 293-335.

"Housing Finance Under Inflationary Conditions," in Federal Reserve Staff Study: Ways to Moderate Fluctuations in Housing Construction (Board of Governors of the Federal Reserve System, 1972), pp. 355-76.

"The Variable Rate Mortgage on Single Family Homes," (jointly with Barbara Negri Opper and R. Frederick Taylor), in Federal Reserve Staff Study: Ways to Moderate Fluctuations in Housing Construction (Board of Governors of the Federal Reserve System, 1972), pp. 376-98.

"Wage-Price Controls: Where Do We Go From Here?" in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 1: 1973, 285-99.

"The Friedman-Meiselman CMC Paper: New Evidence on an Old Controversy," (jointly with Elinda B.F. Kornblith), American Economic Review 63 (December, 1973), 908-17.

"Comment" [on, "An Evaluation of Anti-Inflation Policies in the United States," by Peter Fortune], New England Economic Review, January/February 1974, 28-34.

"Reflections on U.S. Macroeconomic Policy," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 1: 1974, 233-46.

"Monetary Policies in the United States, 1965-74," in C. Lowell Harris, ed., Inflation: Long-Term Problems (Academy of Political Science, 1975), pp. 91-104.

"The Making of Monetary Policy: Description and Analysis," New England Economic Review, March/April 1975, 21-30; reprinted in Economic Inquiry 13 (June 1975), 253-65; and in J.F. Crawford, ed., Readings in Modern Economics, 370-82.

"The Relationship of Monetary Decelerations to Business Cycle Peaks: Another Look at the Evidence," Journal of Finance 30 (June, 1975), 697-712.

"Monetary Policy during the Recession," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity, 1: 1975, 123-39.

"The 1975 CEA Report: Long on Analysis, Short on Policy," American Economic Review 65 (September 1975), 539-47.

"Comment" [on paper by Benjamin Klein], William L. Silber, ed., Financial Innovation (Toronton: D.C. Heath, 1975) 151-54.

"Combatting Inflation: Policy Choices and Their Implications," in Paul H. Earl, ed., Analysis of Inflation (Toronto: D.C. Heath, 1975), pp. 171-86.

"Indexing and the Capital Markets," American Economic Review 66 (May, 1976), 200-04.

"Price and Wage Controls: The First Two years--A Comment," (on paper by Michael R. Darby), in Karl Brunner and Allan H. Meltzer, eds., The Economics of Price and Wage Controls (Carnegie-Rochester Conference Series on Public Policy, v. 2., 1976), pp. 265-68.

"A Proposal for Reforming Bank Reserve Requirements in the United States," Journal of Money, Credit, and Banking 8 (May, 1976), 137-47.

"Interest Rate Stability as a Monetary Policy Goal," New England Economic Review, May/June 1976, 30-37.

"Interpreting the Fed's Monetary Targets," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 1: 1976, 247-59.

"Rational Expectations in the Macro Model," in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity 3: 1976, 463-505.

"Benefits and Costs of Stable Monetary Growth," in Karl Brunner and Allan H. Meltzer, eds., Institutional Arrangement and the Inflation Problem (Carnegie-Rochester Conference Series on Public Policy, vol. 3 1976), pp. 15-50.

"Using T-Bill Futures to Gauge Interest-Rate Expectations," Federal Reserve Bank of San Francisco, Economic Review, Spring, 1978, pp. 7-17.

"Summary and Evaluation," in After the Phillips Curve: Persistence of High Inflation and High Unemployment, Proceedings of a Conference Held at Edgartown, Massachusetts, June, 1978; Federal Reserve Bank of Boston Conference Series No. 19.

"Monetary Control in the United States," Economics Et Societies, 12 (Octobre, Novembre, Decembre, 1978), 1659-73.

"Burnsian Monetary Policy: Eight Years of Progress?" Journal of Finance, 34 (May, 1979), 473-84.

"The Monetary Deceleration: What Does It Mean and Why Is It Happening?" in Arthur M. Okun and George L. Perry, eds., Brookings Papers on Economic Activity, 1979:1, 231-38.

"Macroeconomic Policy 1971-75: An Apprais l," in Fischer, Stanley, ed., Rational Expectations and Economic Policy (Chicago: University of Chicago Press, 1980), pp. 269-82. (National Bureau of Economic Research, Conference on Rational Expectations and Economic Policy, October 13-14, 1978)

"Discussion of the Levy and Meltzer Papers," in Stabilization Policies: Lessons from the '70's and Implications for the '80's (Proceedings of a Conference at the Federal Reserve Bank of St. Louis, October 29-30, 1979). Federal Reserve Bank of St. Louis, 1980, pp. 184-94.

"Current Issues in Monetary Control," Federal Reserve Bank of Richmond Economic Review 66, no. 4, July/Aug. 1980, 20-27.

"Understanding Monetary Policy: The Role of Rational Expectations," in The Business Cycle and Public Policy, 1929-80, Joint Economic Committee Print, 96th Congress, 2d Session, November 28, 1980, pp. 245-81.

"Jacques Rueff on Short-Run Monetary Policy," (forthcoming in volume on Rueff)

"Nominal and Real Rates of Interest in Australia," (submitted for publication)

"Australian Monetary Policy: An Outsider's View"

Book Reviews: 10

Congressional Testimony:

"Statement," Before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, March 31, 1977. (Hearings on Tax Rebates and the Conduct of Monetary Policy).

"Statement," Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, May 10, 1977. (Hearings on the Conduct of Monetary Policy).

"Statement," Before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, June 28, 1978 (Hearings on Federal Reserve-Treasury Draw Authority).

"Statement," Before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, March 14, 1979, (Hearings on the Conduct of Monetary Policy).

"Statement," Before the Subcommittee on Domestic Monetary Policy of the Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, March 25, 1980 (Hearings on Measurement and Control of the Money Supply).

Columnist for American Banker--about one column per week starting in June, 1979

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

See below.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

See below.

3. Has anybody made you a commitment to a job after you leave government?

No, except as noted below.

4. Do you expect to serve the full term for which you have been appointed?

Yes

Brown University has granted me a two-year leave of absence, which may be extended for a short period, from my position as Professor of Economics. Upon completion of my government service I intend to return to Brown. I will receive no remuneration from Brown while on leave of absence. However, Brown will continue tuition remission for my oldest son who is now in his senior year at Brown.

QUALIFICATIONS

I have been studying economics since 1955, first as an economics major at Swarthmore College and later as a Business Economics major at the Graduate School of Business, University of Chicago. Following these eight years of formal study I have continued to read widely in the economics literature.

My research has focused primarily, but not exclusively, on macroeconomic policy issues. Some of this research is theoretical. Much of it is empirical, involving various monetary policy problems and issues. Some of my research has been historical, to provide greater insight into past policy decisions and a background to current policy debates.

My understanding of macroeconomic policy is based not only on my years of observing and studying policy as an academic but also on considerable practical experience. I was employed by the Board of Governors of the Federal Reserve System from 1969 to 1973 and I served as an occasional consultant to the Board after 1973. I was Adviser to the Federal Reserve Bank of Boston for a year 1973-74, and served as a regular consultant to that Bank on monetary policy issues from 1974-82. I have also been an occasional consultant to the Congressional Budget Office and the Federal Reserve Bank of Cleveland; I served as a Visiting Scholar at the Federal Reserve Bank of San Francisco during the summer of 1977.

Finally, my knowledge of central banking and of government policy more generally has been broadened through experience abroad. I spent a sabbatical year 1980-81 as a Visiting Economist in the Research Department at the Reserve Bank of Australia. In addition, over the years I have visited the central banks in Finland, Germany, Italy, Japan, New Zealand, the Republic of China, and the United Kingdom.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

a) Wife's shares in CPC International Corp.

b) My intentionto return to Brown University.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will not participate in any decisions involving the individual interests of CPC International Corp. or Brown Univ.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I was arrested (charges dropped the next day) in connection with a Halloween prank when I was eleven or twelve years old. (in Wilmington, Delaware)

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

ANSWERS TO WRITTEN QUESTIONS SUBMITTED BY SENATOR RIEGLE

Question 1. Many economists believe that the nation's unemployment rate will pierce 11 percent soon. Do you agree with this assessment? What specific, immediate programs would you recommend to reduce unemployment?

Answer: I do not know how to forecast short-term fluctuations in the unemployment rate, or indeed almost any other economic variable, with any degree of precision. Over coming months the unemployment rate could either rise or fall from current levels. The standard cyclical pattern is for the unemployment rate to tend to lag business cycle turning points, suggesting that the rate might rise somewhat further. On the other hand the 0.4 percentage point increase in November was larger than most analysts expected on the basis of other November economic data, suggesting that there might -- and I emphasize "might" -- be some anomoly in the November employment and unemployment data.

Two other pieces of information may help in interpreting short-run changes in the unemployment rate. First, the Bureau of Labor Statistics estimates that the standard error (from sampling variability) of the overall unemployment rate is 0.19 percentage point. In discussing sampling variability for the unemployment rate and total employment the BLS says that, "These figures do not mean that the sample results are off by these magnitudes but, rather, that the chances are 90 out of 100 that the 'true' level or rate would not be expected to differ from the estimates by more than these amounts". (News, Bureau of Labor Statistics, U. S. Department of Labor, "The Employment Situation: November 1982", Explanatory Note, p.2)

It should also be noted that the BLS will introduce a definitional change -- the inclusion of the Armed Forces in the labor force and unemployment statistics -- beginning with January 1983, to be reported in early February 1983, that is expected to have the effect of reducing the unemployment rate by 0.1 to 0.3 percentage point. The Department of Labor first announced its intention to introduce this definitional change in October 1981 (Final Report of the Secretary of Labor on the Recommendations of the National Commission on Employment Statistics, p.4).

As to the programs I recommend to reduce unemployment, in my view the central problem we face is that of assuring that we have a durable, long-lasting recovery to prevent a recurrance of deep recession. The 1969-70 recession took unemployment to a peak of 6.1 percent; the 1973-75 recession to a peak of 9.0 percent; and the rate last month was 10.8 percent. These recurring unemployment tragedies must be stopped. In my view, our success will depend on getting the fundamentals of monetary and fiscal policy right.

Question 2. What kind of an economic recovery do you anticipate in 1983? Do you share the belief of the Conference Board's Economic Forum that any recovery in 1983 will fall "far short" of those that have followed previous recessions?

Answer: Private forecasters, including the Conference Board, have access to the same information I do. Some private forecasters are, of course, more optimistic than others. I do not have any significant difference of opinion with the central range of private forecasts for 1983.

Question 3. The U. S. economy continued to decline in November with no indication that an upturn is in sight, according to a monthly survey of corporate purchasing managers. When do you anticipate an upturn in the economy? What is the basis for your opinion?

Answer: The monthly survey of corporate purchasing managers is a valuable indication of current conditions. From this survey and other information it does appear that the economy declined moderately further in November. While November data contained a number of negative indications, there were some positive signs. The index of leading indicators continued to rise, housing starts remained relatively high compared to year-ago levels, and automobile sales were at the highest level since the summer of 1981. On the basis of the information currently available, I (along with most private forecasters) believe that the recovery will begin within the next few months.

Question 4. What specific steps do you believe should be taken to reduce the deficit?

Answer: Our fiscal policy faces two primary challenges. One is to reduce the structural deficit and the other is halt the upward trend in government spending and taxation relative to GNP. Only by concentrating on reducing government spending can we make progress on both fronts. It would be inappropriate for me to be specific prior to the President's submission of the 1984 Budget in January.

Question 5. What specific, immediate steps do you believe should be taken to reduce interest rates?

Answer: The major impediment to rapid recovery in housing, business fixed investment, and consumer durables spending is the high level of long-term interest rates. We need to support the Federal Reserve in its announced policy of monetary discipline to provide greater confidence in the financial markets that inflation will continue to decline. We also need to reduce the budget deficit to reduce the amount of private saving absorbed by Treasury debt issues and to reduce the risk that the Federal Reserve will be forced to monetize debt in the future. Because long-term interest rates depend so heavily on expectations concerning the future, significant progress on budget issues this year can set a much better tone for the future and bring interest rates down promptly.

Question 6. Do you believe further tax increases will be needed next year?

Answer: In my answer to question 4 I emphasized my view that we must reduce the budget deficit and stop the growth in government spending relative to GNP. For this reason, I believe that tax increases should be avoided next year and in the future.

Question 7. What do you believe is the biggest problem facing the economy today?

Answer: In my view, the biggest problem, and one insufficiently discussed, is the uncertainty surrounding fiscal policy. Uncertainty over government spending and tax policies makes it difficult for households and firms to plan efficiently. Uncertainty over the size of the deficit keeps interest rates higher and more volative than they need be. It would be extremely helpful to the economy if budgetary decisions could be made in a more expeditious and orderly fashion than they have in recent years.

○